MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2016/ 2017

BFN2054 – PORTFOLIO MANAGEMENT

(All Sections / Groups)

13 OCT 2016
2:30 PM – 4:30PM
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of **3** pages with **5** questions.
2. Answer **ALL** questions and the distribution of the marks for each question is given.
3. Please write all your answers in the **Answer Booklet** provided.

Please Answer All the Questions

Question 1: 25 marks

The ordinary shares of Ali Berhad are currently trading at 80 sen. The last dividend per share was 15sen and its dividends have been constant for ten years. The company plans to finance a new investment project out of retained earnings and so for the next two years the dividend per share will fall to 10 sen. Benefits from the investment project will be gained from year three onwards and so Ali Berhad will pay a dividend of 18 sen per share in that and subsequent years.

Assume that shareholders have all the above information.

Required:

(a) What would be the fair price for the shares of Ali Berhad? (10 marks)

(b) Discuss whether a policy of paying out no dividends means that a company has no value. (5 marks)

(c) Explain the following terms:

i. the clientele effect (5 marks)

ii. the 'bird in the hand' argument (5 marks)

Question 2: 25 marks

You are a qualified investment advisor for a high worth client. You are planning to invest RM18 million in one of two short-term portfolios. Both portfolios consist of four short-term securities from diverse industries. The correlation between the returns of the individual securities is thought to be close to zero.

Portfolio A investments	Equity Beta	Expected return (%)	Standard deviation of return (%)	Amount invested (RM million)
A1	1.5	17	8	3.6
A2	0.0	5	1	5.4
A3	0.8	10	4	5.8
A4	1.0	13	12	3.2

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Portfolio B investments	Equity Beta	Expected return (%)	Standard deviation of return (%)	Amount invested (RM million)
B1	1.2	12	10	7.4
B2	0.7	10	4	2.8
B3	0.3	6	2	5.2
B4	1.6	17	14	2.8

(a) You have suggested that your client use the capital asset pricing model (CAPM) to compare the portfolios. The current equity risk premium is estimated to be 5.5% and the yield on short-dated Treasury Bills is 4.5%. Using the information provided, recommend which one of the two portfolios should be selected.

(15 marks)

(b) Explain whether the capital asset pricing model (CAPM) and portfolio theory use the same measure of risk. Discuss whether you consider portfolio theory or the capital asset pricing model to be most appropriate when choosing between portfolios in part (a).

(10 marks)

Question 3: 20 marks

(a) Discuss briefly the methods used to measure the riskiness of an investment.

(10 marks)

(b) A firm that evaluates portfolios uses the Sharpe approach to measuring performance. How would it rank the following three portfolios?

	Portfolio Return	Risk Free Rate	Portfolio Standard Deviation
Thinker Investment	12%	5%	15%
Evers Group	9	5	22
Lawsong Money	13	5	16

(10 marks)

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Question 4: 20 marks

(a) Differential between a define-benefit and a defined-contribution pension plan. (10 marks)

(b) Given the hgher fees associated with a hedge fund-of-fund, why do many institiutional investors still find this form of investment attractive? (10 marks)

Question 5: 10 marks

A protfolio has a primary objective of capital appreciation and a secondary objective of grwoth of income. If you feel bearish about the stock market as a whole, is it appropriate for you to reduce your equity holding to zero? Why or why not?

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